Raising the Minimum Wage: Impact Depends on Its Effect on Hours Worked

The current popular rant among many non-economists is that opposition to raising the minimum wage is equivalent to opposition to worker rights. Those who are more curious and intellectually honest will find that there is no theoretical basis for this hypothesis and empirical studies have come down on both sides—i.e. increasing the minimum wage is beneficial to workers, or boosting the minimum wage is harmful to workers. Total wages in a state are the product of the number of hours worked and the hourly wage rate. Raising the minimum wage may result in reducing the number hours worked to the point that total state wages shrink instead of expanding. There are currently 24 U.S. states and DC that have a minimum wage above the federal minimum, and 27 states with minimum wages that are at or below the federal minimum wage of $7.25. Since the beginning of the economic recovery in 2009 until 2013, the states with minimum wages above the federal level, compared to states with minimum wages at or below the federal minimum, experienced: 3.1% lower gross domestic product growth, 0.3% lower job growth, and 0.2% higher welfare payments, but a 0.4% lower increase in poverty rates. This analysis is certainly not definitive and does not control for other important factors influencing a state’s economy. But it does at least question the popular notion, or “accepted science” that raising the minimum wage is necessarily a winner for the state economy. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Sinks for August: Farm Equipment Sales Decline to Record Low

Tables 1 below summarizes the findings from this month's survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

<table>
<thead>
<tr>
<th>Table 1: The Mainstreet Economy</th>
<th>Aug 2013</th>
<th>July 2014</th>
<th>Aug 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>55.8</td>
<td>51.8</td>
<td>48.3</td>
</tr>
<tr>
<td>Loan volume</td>
<td>70.5</td>
<td>79.8</td>
<td>73.4</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>51.7</td>
<td>53.5</td>
<td>46.7</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>43.5</td>
<td>37.8</td>
<td>32.5</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>55.8</td>
<td>48.3</td>
<td>41.4</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>49.2</td>
<td>33.4</td>
<td>25.5</td>
</tr>
<tr>
<td>Home sales</td>
<td>72.5</td>
<td>64.1</td>
<td>59.5</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>59.2</td>
<td>59.7</td>
<td>56.8</td>
</tr>
<tr>
<td>Retail Business</td>
<td>52.6</td>
<td>55.4</td>
<td>47.5</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>53.4</td>
<td>42.9</td>
<td>39.9</td>
</tr>
</tbody>
</table>

Survey Results at a Glance:

- Rural Mainstreet Index falls for third straight month to its lowest level in almost two years.
- Farmland prices decline for ninth straight month as the pace of decline quickens.
- On average, bank CEOs expect farmland prices to decline by 4.8 percent over the next year.
- Cash rents on farmland per acre advanced from $258 in March of this year to this month’s $285.
- Approximately 26 percent of recent farmland sales were for cash (not financed). This is down from 29 percent reported last year.
- Farm equipment sales decline again as index drops to a record low level in August.

Rural Mainstreet Economy January ’11 – August ‘14

The Rural Mainstreet Index moved to its lowest level in almost two years according to the August survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. The index has been trending lower since June 2013 when the reading stood at 60.5. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, with 50.0 representing growth neutral, fell to 48.3 from July’s 51.8.

Agriculture commodity prices have plummeted for crop farmers in our region and are expected to move even lower in the months ahead. This decline has spilled over into the broader rural economy according to our survey. With record crop supplies anticipated by analysts, I expect readings to move even lower in the months ahead.

Furthermore, according to Jim Ashworth, president of CNB Bank Shares of Carlinville, IL, “Ideal growing conditions in mid-Illinois all season have renewed competitive loan pricing pressure in all our markets.”

Other parts of the region have not been as fortunate in terms of yields. For example, David Callies, CEO of Miner County Bank in Howard, reported, “Our area is very dry. Reduced yields and low crop prices will have a very negative impact on our area economy.”

Farming and ranching: The farmland and ranchland-price index for August slumped to 414 from July’s 48.3. Much weaker crop prices are taking the air out of agriculture land prices. This is the ninth straight month that the index has moved below growth neutral.

The August farm-equipment sales index slumped to a record low 25.5 from July’s very weak 33.4. The index has been below growth neutral for 13 straight months. This is lowest reading that we have recorded for the equipment index since we began the monthly survey in 2006. The rapid decline in agriculture commodity prices is causing farmers to become more cautious in their equipment purchase.

This month, we asked bankers to project farmland prices for the next 12 months. On average, bank CEOs expect farmland prices to fall by 4.8 percent. Just six months ago, bankers expected a decline of 3.2 percent over the next 12 months.
**THE MAINSTREET ECONOMY REPORT**

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**MAINSTREET ON YOUR STREET**

COLORADO

Colorado: Rural Community Bank's RMI (remained above the 50.0 threshold) for the sixth straight month, expanding to 51.9 from 51.7 in July. The farmland and ranchland price index jumped to 62.5 from July’s 51.3. Colorado's hiring index for August climbed to 73.0 from July’s 61.9. Rural Mainstreet job growth over last 12 months: 3.6 percent.

ILLINOIS

For a second straight month, Illinois’ RMI fell moving to 44.6 from July’s 51.8. The state’s farm-land price index sank to 37.7 from 41.0 in July. The state’s new-hiring index fell to 53.1 from 53.7 in July. Rural Mainstreet job growth over last 12 months: 0.4 percent.

IOWA

The August RMI for Iowa fell to 50.6 from July’s 52.9. The state’s farm-land price index for August sank to 40.7 from July’s 48.0. Iowa’s new-hiring index for August declined to 55.3 from July’s 62.3. Rural Mainstreet job growth over last 12 months: 0.5 percent.

KANSAS

The Kansas RMI for August slipped to 50.4 from July’s 52.0. The farm-land price index for August dropped to 45.3 from 53.7 in July’s 50.9. The state’s new-hiring index fell to a healthy 59.2 from 61.8 in July. Rural Mainstreet job growth over last 12 months: 2.1 percent.

MINNESOTA

The RMI for Minnesota increased 5.0 from July’s 50.5. Minnesota’s farm-land price index for August declined to 47.8 from 50.8 in July. The new-hiring index for the state decreased to 61.2 from July’s 67.6. Pete Haddad, CEO of the First National Bank in Mankato, said, “Our crops are much improved” Rural Mainstreet job growth over last 12 months: 2.7 percent.

MISSOURI

The August RMI for Missouri advanced to a weak 51.6 from July’s 50.7. The farm-land price-index for August grew to 48.0 from 44.2 in July. Missouri’s new-hiring index rose to 71.5 from July’s 55.6. Rural Mainstreet job growth over last 12 months: 3.3 percent.

NEBRASKA

The Nebraska RMI for August fell to 47.8 from 51.8 in July. The state’s farm-land price index sank to 47.6 from 50.8 in Nebraska. The new-hiring index for August dropped to 48.2 from 44.2 in July. Nebraska’s new-hiring index decreased to 47.3 from July’s 52.3. Rural Mainstreet job growth over last 12 months: -0.5 percent (region Nega).

NORTH DAKOTA

The North Dakota RMI for August climbed to 55.2 from July’s 53.0. The farm-land price-index rose to 71.7 from 62.3 in July. North Dakota’s new-hiring index sank to a still strong 62.4 from July’s 85.1. Rural Mainstreet job growth over last 12 months: 6.9 percent (region Nega).

SOUTH DAKOTA

The August RMI for South Dakota declined to 49.0 from July’s 52.1. The farm-land price-index slumped to 39.4 from last month’s 48.4. South Dakota’s new-hiring index dipped to 54.5 from 54.6 in July. Rural Mainstreet job growth over last 12 months: 1.4 percent.

WYOMING

The August RMI for Wyoming sank to 50.6 from July’s 52.2. The August farmland and ranchland-price index fell to 44.9 from July’s 53.5. Wyoming’s new-hiring index for August declined to 58.9 from July’s 63.7. Rural Mainstreet job growth over last 12 months: 2.3 percent.

**THE BULLISH NEWS**

- The consumer price index (CPI) for July was 2.6% higher than the reading for July 2013. This is a “goldilocks” reading (not too cold, not too hot).
- The U.S. wage rate increased at an annualized pace of 3.5% in August 2014 and was up by 2.1% from 2013.
- In the 12 months ending in June 2014, the Case-Shiller index indicated that average U.S. home prices rose by 6.2% (a sweet spot).

**THE BEARISH NEWS**

- Total nonfarm payroll employment increased by only 142,000 in August and the unemployment rate declined to 6.1%. However, unemployed workers leaving the workforce, termed discouraged workers, was the prime factor pushing the jobless reading.
- The number of workers employed part time for economic reasons for August was unchanged from July at 7.3 million.
- Creighton’s Mid-American job index moved below growth neutral for August indicating job losses among the 9 states for manufacturing and value-added services firms.

**WHAT TO WATCH**

- GDP: On Oct. 30, the U.S. BEA releases preliminary estimate of Q3 GDP. Annualized growth of less than 2% will be very disappointing and give bond prices a boost and push interest rates lower.
- Jobs: On Friday Oct. 4, the U.S. Bureau of Labor Statistics (BLS) will release employment report for September. Another a relatively weak report (job additions below 120,000) and wage rate growth below 2% will result in long term and short term interest rates remaining low.
- CPI: On Sept. 17 and Oct. 22, the Bureau of Labor Statistics releases consumer price indices for August and September, respectively. A monthly increase of more than 0.3% or less will encourage the Fed to hold off on rate hikes thus keeping both short and long terms rates low.

**THE OUTLOOK**

From GOSS:

- I expect Quarter 2 GDP growth to come in at a tepid 2%. Since the economic recovery (7) began in July 2009, U.S. economic growth has actually trended downward. You will be able to tell your grandparents about this one. My grandparents were always telling me how “rough” the Great Depression was (for those that think I was there—I was not).
- I still expect a significant (and short) retracement in the stock prices before the end of 2014.

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**OTHER FORECASTS:**

- National Association of Business Economics (NABE) (September 2014): NABE’s August 2014 Outlook Survey. "While there is no clear consensus on current fiscal policy, the share expressing approval has increased markedly to 42 percent compared to just 31 percent one year ago," said NABE President Jack Kleinhenz, chief economist at the National Retail Federation. Most panels do not see inflation being a major concern in the coming years. “The majority of NABE panelists believe that inflation will be at or near 2% in 5 years. “A majority of respondents (53%) indicated they believe monetary policy is on the right track, but 39% felt that monetary policy was too stimulative. “Nearly a third (38%) of panelists believe the Federal Reserve should stop reinvesting Treasury debt and agency-backed securities by the end of 2014, but only 7% expect the Fed to do so by then.

**GOSSES EGGS (RECENT DUMB ECONOMIC MOVES)**

- The Financial Stability Oversight Council (FSOC) is undermining the U.S. economy by designating Metlife as “systemically important” or “too big to fail” and neither requested nor received taxpayer support during the economic downturn. This designation will force Metlife, and potentially other insurers: to maintain excessive low yielding cash balances.

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